

**Small & Medium Agency
Chief Financial Officers Meeting Minutes
November 23, 2010**

PARTICIPANTS:

Pam Rezek, AGA
Julie McKnight, AUA
Dena Dotson, EPA
Tina Waddell, FOA
Lizette Morgan, GFA
Lori Boncoskey, GHA
Kim Bittrich, HIA via GoTo Meeting
Michael Hawthorne, ICA
Ken Bell, JCA
Keith Falstrom, LDA
Dianna Claassen, MAA
Lori Sheen, MAA
Christa Lewis, MAA
Madan Singh, MNA
Sandra Mengelkoch, PRA
Trudy Kranendonk, RGA
Brett Larson, STA
Shari Courtney, TEA
Cheryl Fraulob, UOA
Renee Dudden, VSA
Clark Partridge, ADA/GAO
Mike Smarik, ADA/GAO
Angela Dillard, ADA/GAO
Joanna Greenaway, ADA/GAO
Anita Kleinman, ADA/GAO
Tami Eckloff, ADA/GAO
Jaimie Soulvie, ADA/GAO
Stu Wilbur, ADA/GAO
Amy Aeppli, ADA/GAO
Jennifer Verhelst, ADA/GAO

ITEMS COVERED

Clark Partridge – Welcome & Introductions

Federal Offsets – Anita Kleinman

There are still a few offsets that we have not been able to identify which State agency they belong to. They are small amounts. Please make sure you check with your program people and make sure all monies drawn have been accounted

for. If you need assistance with offsets, please contact Anita Kleinman at 602-542-2216 or Anita.Kleinman@azdoa.gov.

There is a timing issue between the U.S. Department of Treasury and the U.S. Department of Health and Human Services (DHHS). The State of Arizona has paid its debt and we have actually paid more than we originally owed due to the timing difference. We are in the process of identifying the over payment and requesting a refund. Once the overpayment has been identified, we will work with OSPB to determine which agencies will be paid back on what basis for the refunded dollars. If you have offset issues, make sure your OSPB analyst is aware of it.

Q: Who are you talking to at OSPB?

A: John Arnold and all of the OSPB Analysts.

Q: Are we actively going to get any of the money back?

A: We will have to see what the Legislature chooses to do to solve the problem.

Q: We aren't getting any of the money back from the feds?

A: Not the money that we owed. We did owe the feds and we will not be getting that money back. The amount we are trying to get back is the amount the State of Arizona overpaid to the feds. The issue now is we owe ourselves and the Legislature will have to decide how that will be handled.

Federal Financial Accountability and Transparency Act (FFATA) – Anita Kleinman

FFATA is the new federal reporting for transparency. Initially it will not be as expansive as the ARRA reporting. This reporting is for any new awards issued October 1, 2010 and after. If these new awards had sub awards given out during the month of October, the reporting for these awards is due November 30th. The reporting for any activity during the month of November will be due at the end of December.

We have looked at the new grant setup information. We have looked at information on the FSRS system and there are only six agencies that could possibly have grants that need to be reported on. We have contacted those agencies. The reporting will be growing as new awards are coming out in the coming years. Eventually everything will need to be reported on. The feds are looking for information on the sub award grantees. ARRA is excluded from this process but eventually ARRA will go away.

Q: So if we have not been contacted we don't need to worry about it at this point?

A: You need to be looking at your information. The agencies that have awards that we are aware of that might need to be reported on have been contacted. There may be some grants that the feds think of as new awards that we think of as old continuing awards. We will probably be contacted by the feds and have some cleaning up to do. The feds should be very clear when they are making awards if it is a new award or a continuing award.

Q: The feds are not releasing much information now?

A: It will be a learning experience for both sides. We have heard that some of the federal agencies are not as well prepared for this program. The Technical Bulletin for FFATA is out. It is a decentralized reporting mechanism but we are asking that you communicate with Anita if you are reporting for FFATA.

Office of Foreign Asset Control (OFAC) – Angela Dillard

A federal requirement starting in 2005 or 2006 requires the State to check our vendor list and payments by vendor name against the Specially Designated Foreign Nationals List to make sure we are not making payments to terrorists that are on the list. We have been working with the vendor Lexis Nexis to do a match between our vendor file. Eventually any payments that do not have a vendor name produced using TC825 or TC826 will also be matched against the database. We are going through the results of the match up now. As we get more information, we will be communicating to you, especially if you are one of the agencies that are using TC825s and TC826s on a regular basis.

We will try to absorb as much of the cost as we can but if we have a lot of hits, especially from those agencies that maintain their own vendor files, we may need to look at sharing the cost. Again this will be any payments made to individuals or organizations that may not be a terrorist themselves, but are known to support terrorism.

Q: If we issue a refund, will it be subject to this?

A: Any payment that we make will be subject to this requirement. When we get to that point, if you can submit a list of your payments ahead of time, we can do a match against the list prior to actually running the payments in AFIS. It will be all payments. It does not matter whether it is revenue or expenditure.

Q: Are they going to do anything to head this off through procurement?

A: Yes. SPO is discussing their efforts of how they are going to handle this with agencies so the matching is done up front at the point of contracting. That will not remove the obligation for us to report those payments. Not everything goes through procurement, for example payments to individuals for assistance.

Q: Do we give our list to our liaison?

A: There isn't anything for the agencies to do at this point. We will contact you if there is something affecting your agency.

Q: We do judgment payouts all the time.

A: We are working on devising the way payments made using TC825 and TC826 will be handled for checking against the list prior to payment. We are looking at using the due date for these types of payments. Agencies would have to enter the information a day or two before the actual payment so we can run the check against the payments. Once everything comes back okay, we can release it for payment. That is the game plan. We will see what else we can work out.

1099s – Angela Dillard

We just finished with the B Notices for the 2009 1099s that were issued. The B Notice is when the IRS comes back and says either the name or the tax ID is not correct for the vendor. We then have to take action to fix the information. In the past the IRS just asked what we did to correct it. They are now being stricter and are proposing penalties at \$50 per B Notice which is expected to increase. We therefore need to be stricter on our vendor information and make sure the number and name is correct.

For the issuance of the 2010 1099s, we will be starting that process soon. We will have the DAFR953U report available at the beginning of January. This report is for the agencies to review the vendors and information and make any necessary corrections. Instructions will be provided.

For the agencies that interface 1099 information to us we want to make sure you are on top of things and preparing for 1099s. You do not need to wait until a week before things are due to us to get ready. It helps to keep the vendor file clean throughout the year. Please make sure W9s are handled appropriately. We may have some changes as we move forward and coordinate the vendor file with ProcureAZ. We will look for opportunities to utilize the self service capabilities in ProcureAZ however we cannot sacrifice the quality of the 1099 reporting. If you have concerns, let us know.

Payments to Employees – All thru HRIS – Stu Wilbur

We are continuing to analyze payments made to employees thru AFIS and set up a plan to reimburse employees through HRIS. We are looking at 15 pay codes that we will recommend to be added to HRIS. Those will be mapped to the related comptroller objects in AFIS. There will be one additional pay code as miscellaneous to capture all other payments. If miscellaneous is used, a transfer can then be made in AFIS to move the payment from miscellaneous in AFIS to the correct comptroller object.

We started out looking at tuition reimbursements. We then saw how many things employees were being paid for out of AFIS, including wages. There were instances of an employee moonlighting for another agency and the second agency paying the employee out of AFIS. Those are wages and they need to go through HRIS.

Q: When will the final pay code list be available?

A: We are trying to have the change ready for January so hopefully we will have the information out by the end of this month so agencies can start preparing. We will probably put out a tentative list of pay codes. We have already shared it with some agencies and received some good feed back. If you have any issues once you see the tentative list, please let us know.

Q: Are you going to establish a new job role in HRIS for these payments?

A: We are looking at it to see whether we add a new job role or modify the travel job role. Some agencies are large enough that employees only do travel. Other agencies it may be the same person doing both travel and other employee reimbursements.

Q: Have you discussed a cell phone stipend any further?

A: We have talked about it some since the last meeting but we are not at a point where it is seriously being considered. It has not been dropped but we have not been able to get back to it.

Payroll Calendar Year End – Stu Wilbur

Yesterday was our payroll calendar year end meeting. We recently published the Payroll Year End Memo. It is out on the website. Please read the memo and the PowerPoint presentation.

A couple of key points:

- W2s are on line from 2006-2009.
- Any W2Cs for those years are also online.
- We are trying to target around January 13th or so for the 2010 W2s to be online. We will delay the mailing and will post the W2s online first to allow employees time to go online and consent to having only the electronic version. The mailing will go out towards the end of January. We will remove all those that consented to having only the electronic version. The electronic version will be available for everyone. All we are asking is for consent not to mail the hard copy. After employees leave State service they can go online and retrieve their information for the next four years. We are really trying to eliminate the need for the paper. As a carrot, if you go online, you will get the W2 faster. That is intentional to try to lower the cost to the State.

Q: Will we be able to download the information into a tax program?

A: Not at this time. It is just a printable version.

Q: Can't you just stop printing the W2s and force employees to go online?

A: No we can't. There is an IRS requirement that says we must have the employees' consent to no longer give them a paper copy. So far we have about 3,500 employees that have given their consent for an electronic only W2. It may be more now. We had a link at the end of open enrollment to encourage people to go and provide their consent for the electronic W2. There will be additional communications coming out soon to try to get employees to go in and give their consent.

Q: Can you create a pop up for the last paycheck of the year for employees to give their consent for the electronic W2 when they go in to check their last paystub of the year?

A: We are trying to drive more traffic there. We have too many lost W2s all throughout the tax season. It is a burden on State resources and the individual. With the online service, the W2s are available to the employee close to 24/7. They don't need to wait for the next work day to request their W2.

Any payroll warrants for the last pay day of the calendar year, will be mailed on December 30th straight from GAO. This is to ensure employees have constructive receipt of their pay warrant. The direct deposit file will go as normal effective on Thursday, December 30th.

State Transparency Project – Joanna Greenaway

We are currently loading the first three months of fiscal year 2011 to the website. We are hoping to have it ready for Clark's review tomorrow so we can sign off with the vendor and proceed with the sub-launch.

We will review the information and make sure we are comfortable with it. We have received input from many agencies throughout this process. Thank you for your cooperation. We want you to be comfortable with the site now that it is almost fully developed. Our go live date is December 15th. We plan on a roll out next week for getting the information to the agencies to review. We cannot share the information until we sign off with the vendor. When you are reviewing the site, if you have any issues, call us and let us know.

There will be some things that come out with this website. We found out one agency has a different set of Chart of Accounts than we use for AFIS. Everything is coded as furniture in AFIS when it was really computer equipment. The agency needs to change the way they do business. If it is coded as garbage in

AFIS, it will be shown as garbage on the transparency website. There are now people that are paying more attention to the accuracy in which things are coded than they were before. If things are coded incorrectly, they will always show incorrectly. Even if you correct it, it will still show the original transaction as well as the correction. If you use the vendor number in the correcting transfer, the correction will show up with the vendor's name on it so if someone does a search by vendor name, they will see the correcting entry.

Q: Is there a way in AFIS that you can force the use of the vendor number on the transfer?

A: There is not always a vendor number on transfers. We would have to sign up all the agencies with vendor numbers. It is not a bad idea but it would be extra work load. When we were dealing with ARRA reporting, we had the same issue. Go back and think about. If there are enough agencies that would like to see that implemented, maybe we need to make the change. We would have to have the vast majority wanting to do this. We would also have to take this into account with all the other priorities we have.

Q: Will those employees getting paid through AFIS show up on the transparency site as a vendor?

A: Yes.

Q: Are per diems paid through HRIS or AFIS?

A: We don't have any per diems. We have travel reimbursement rates.

Q: The \$50 a day paid to board and commission members?

A: That is an amount paid per meeting set up by statute and it is paid through HRIS. Those are their wages per se. Eventually we will be pulling travel information into the website. Wages are not an item we plan on bringing onto the website initially. We have other things of higher priority that need to be brought up first.

Q: What about the per diems the Legislature gets?

A: The Legislative subsistence will be part of travel. That will be there when travel is brought in. The \$24,000 they are paid will not show up, those are considered wages.

Q: They get the \$50 per day per diem.

A: Correct but it is travel subsistence they are getting.

There may be surprises out there when the site comes up. We will not be focusing on correcting all the data. The major issue is the confidentiality. It is a good opportunity to do a self audit and consider what changes you may need to make. Maybe you are not utilizing the Chart of Accounts the way that you should be. Maybe we need to make updates to the Chart of Accounts.

Q: For the 15 new pay codes for reimbursing employees that are going to be set up in HRIS. Will these eventually show up on the transparency site? Or will it just be travel?

A: Travel will eventually be there and for the other payments the detail just won't be there. It will be there when it comes across to AFIS but it will show as vendor unavailable. If an employee provides 1099 reportable services, we will know it and a 1099 will be issued.

Q: What about reimbursing employees for office supplies?

A: That will not be a problem. Reimbursement for goods will not be a problem. We thought reimbursement of employees might be a problem for the 3% withhold but we don't think that will be the case. In the January/February timeframe we will be in a better position to know how employee reimbursements will be affected by the 3% withhold. Hopefully we will see final guidance from the feds soon.

Any other questions or issues?

Q: Is anyone else currently using ProcureAZ?

A: There are a couple of smaller agencies. The next wave is going to be coming on board after the 1st of the year. The goal is to have most, if not all, agencies on board by the beginning of the fiscal year. If you have not looked at ProcureAZ yet you probably should. You can talk to those agencies, Commerce and Game & Fish that have already transitioned.

Q: There are issues with the vendor setup. We had asked questions beforehand and were told everything would be fine. There are issues with mail codes and dba's (doing business as).

A: In ProcureAZ the vendor goes in and registers as Joe's Auto Shop for example when they are legally registered with the IRS as something else. In AFIS we have gone through and done a TIN (tax identification number) and name match. Everything had been standardized so we don't get the B Notices. They do not have that type of mechanism on the ProcureAZ side therefore the names must match for the information to come across into AFIS. It was mentioned but apparently it wasn't hit home enough that we have to have this

information before it comes across into AFIS. We are not going to risk being fined by the IRS.

Q: We are trying to get PO's through and the vendors are wrong, it is not working. It is getting better but it has been painful. We are also having issues with the receiving portion. They are working on it with Periscope but right now you can go in and tell the system 5 widgets were received. Financially we need to know exactly what was received. We have multiple encumbrance lines for the PO. When something is received, it is not received against a specific encumbrance line, it is only received against the item number. So when we get the bill, we need separate documentation showing what was received so we know what to pay against multiple funding sources.

A: We didn't realize this was an issue.

Q: Can we opt out of using ProcureAZ? When we had the training we asked these types of questions and we were told everything was going to be fine.

A: We need to overcome the obstacles instead of looking at opting out.

Q: We think it will be okay once some of these issues are overcome. The information tying to AFIS is a huge advancement. We think we will get there, there are just some initial pains.

A: It is a step in the right direction. It is not perfect. Any time you get different systems and try to coordinate them, there are some challenges. The issues will be addressed.

For the vendor names that are drastically different from the known name, they are looking at adding another field so you can see what the common name is. What you are seeing is typical of any new system. Those of you that are not on it yet can thank those that are ironing these issues out for them.

Q: I would suggest nothing further be done until what we have works perfectly. We know they want to add the claims next but until what has already been rolled out works perfectly, they shouldn't add anything else.

A: We have had those discussions. Also the next piece is a lot bigger with a lot more risk and it changes the dynamics and the internal controls substantially. We have other higher priorities right now.

We have never had a system to record goods and services received, only hard copy. This is a good thing. It is getting us thinking more holistically about our business practices.

Closing Comments – Clark Partridge

We are living in interesting times. California is going through what we went through with the sale of their buildings but they are selling theirs outright. They have the opportunity to buy them back at the end. The sale is potentially held up as being illegal. They may have to go to an appellate level to get it resolved.

The State was upheld on one the lawsuits on the sweeping of funds from the Legislature. The reality is the Legislature created the fees, they have the authority to increase the fees. They have the authority to modify the fees.

Future Agenda Items

Emphasis on Electronic ACH Payments

NSF & Favorable/ Unfavorable Deposits Cleanup Project

3% Withhold

If you have any questions or concerns, please contact the GAO.

Meeting adjourned at 3:25 p.m.

The next meeting is scheduled for Tuesday, January 18, 2011, at 2:00 p.m. in the General Accounting Office.